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# Feasibility of the application of cost-accounting principles at the United Nations Secretariat

## Report of the Advisory Committee on Administrative and Budgetary Questions

1. The Advisory Committee on Administrative and Budgetary Questions has considered the report of the Secretary-General on the feasibility of the application of cost-accounting principles in the United Nations Secretariat (A/61/826). During its consideration of this item, the Committee met with the representatives of the Secretary-General who provided additional information and clarifications.

2. The report is submitted pursuant to paragraph 10 of General Assembly resolution 59/275 of 23 December 2004 in which the Assembly endorsed the recommendation of the Committee for Programme and Coordination requesting the Secretary-General to develop improved tools for identifying the cost of activities and outputs and to report to the Assembly at its sixtieth session on options for applying cost-accounting techniques, drawing on best international practices (A/59/16, para. 349). It should be recalled that the Secretary-General had issued an interim note (A/60/714) informing the Assembly that consultants had been engaged to perform a technical review and had delivered a report setting out options for applying cost-accounting principles at the United Nations. In light of the far-reaching nature of these proposals, the Secretary-General had proposed to submit to the Assembly at its sixty-first session a comprehensive report on the feasibility of introducing a cost-accounting system at the United Nations, in coordination with the implementation of the International Public Sector Accounting Standards and the enterprise resource planning system.

3. During its consideration of this item, the Advisory Committee received the related report of the consultants (see para. 2 above), which includes an analysis of the interests of a cross-section of departments, the existing budgetary process and costing methods and the principles and methodologies of costing support services and substantive activities. The consultants also make specific proposals on pilot projects for introducing: (a) activity-based costing in the Department for General Assembly and Conference Management for reporting on costs of support services;

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(b) a time-recording system for costing the substantive outputs of the Office of Internal Oversight Services; and (c) the costing of peacekeeping activities. Last, the report of the consultants addresses questions relating to the change management process and the gaining of acceptance by staff and management. **The Committee recommends that the report of the consultants be shared with all departments and offices concerned.**

4. The Secretary-General points out that, although there is no cost-accounting system in general use in the United Nations Secretariat, related principles are applied in many areas, albeit ones using differing methodologies. He also indicates that there is widespread interest in improving reporting on the costs of activities and outcomes. According to the Secretary-General, the main justification for the application of cost-accounting principles is better management of costs and utilization of time. In addition, there may be other benefits, such as:

(a) Increased revenue generated by support services where charges are levied; and from a broadening of the scope for charging (see A/61/826, paras. 25-33);

(b) Savings in time and other costs arising from changes made in response to realization of the true costs of substantive and support activities;

(c) Improved project management through the use of cost-accounting information;

(d) Improved cost information for the preparation of budgets;

(e) The fact that the initiative would reflect positively on the Organization by publicly demonstrating its efforts to achieve increased accountability and improved cost-effectiveness, and allow reporting on the costs of specific mandated activities.

5. The issue of cost accounting at the United Nations is one of long-standing. The Advisory Committee recalls that, in paragraph 29 of its resolution 56/253 of 24 December 2001, the General Assembly had emphasized that cost accounting and the system of costing outputs were an important part of an effective and transparent decision-making process, and requested the Secretary-General to report to the Assembly at its fifty-seventh session on that subject. The Secretary-General did not submit the requested report. Earlier, in its resolution 52/214 of 22 December 1997 (sect. D, paras. 1-3), noting the possible benefits of the cost-accounting system for the financial efficiency of the United Nations, the Assembly had requested the Secretary-General, as a matter of priority, to expedite the development of the cost-accounting system for conference services and to extend it to other areas of the Secretariat. The Committee has also repeatedly emphasized that the linkage of resources to outputs and accomplishments is an essential element of the results-based budgeting concept and that it is necessary to demonstrate how the resources provided contribute to achieving objectives (see A/56/7, para. 14; A/58/7, para. 20; A/60/7, para. 7). It had also called for a pilot project to determine the feasibility of a cost-accounting exercise for publications in its first report on the proposed programme budget for the biennium 2002-2003 (A/56/7, paras. 73-76) (see also A/58/7 para. 104; A/60/7, para. 23). However, the Committee had been informed that the Integrated Management Information System (IMIS) did not have the capability to align financial resources with results-based budgeting and that the

costing and recording of expenditure by results would require an Organization-wide overhaul or replacement of systems (A/58/759, para. 14).

6. The Secretary-General is of the view that, while the full application of cost-accounting principles to all Secretariat functions could be envisaged, the magnitude of change required to implement such a system successfully would require careful consideration. While the report discusses some issues related to cost accounting, the Secretary-General does not put forward specific ideas for consideration by the General Assembly. He suggests that the Assembly may "decide to return to this issue in the context of determining the relative priority of the benefits to be achieved by the implementation of an enterprise resource planning system" (para. 46 (b)).

7. The Secretary-General, in the introduction to his report, indicates that the General Assembly had requested him "to report on the feasibility of the application of cost-accounting principles in the United Nations Secretariat". In fact, in paragraph 10 of Assembly resolution 59/275, the Assembly endorsed the recommendation of the Committee for Programme and Coordination (A/59/16, para. 349) requesting the Secretary-General "to develop improved tools for identifying the cost of activities and outputs and to report to the Assembly at its sixtieth session on options for applying cost-accounting techniques, drawing on best international practices". **In the view of the Advisory Committee, the Secretary-General has not adequately responded to the mandate given by the Assembly, as he does not report on progress made in the development of improved tools for identifying the cost of activities or elaborate options concerning cost accounting.**

8. The Advisory Committee notes that the Secretary-General's use of the report of the consultants is somewhat selective. For example in paragraph 11 of his report A/61/826, the Secretary-General indicates that the consultants expected some of the principal objections to the cost-accounting and time recording system to be the following: (a) such a system would be regarded as intrusive; (b) it would be an additional chore; (c) many staff might work more than the standard 40 hours per week on which the standard time charge is based; (d) there was a doubt about the net benefits; and (e) it would be viewed as a tool to measure productivity and eventually to lead to a reduction in staff. The Secretary-General has not, however, included the consultants' counter-arguments, namely: (a) that such a system would provide a regular reminder of the true cost of time; (b) that it would require only a few minutes every one or two weeks; (c) that rules may be established to determine which time is costed and which is not; (d) that such systems are widely used and their worth is widely accepted; and (e) that such systems should, in fact, enhance productivity.

9. **The Advisory Committee believes that better knowledge of the costs of activities would be advantageous and would provide a better basis for assessing the efficiency of administrative functions, the cost-effectiveness of work processes and the impact of new administrative systems. Such information would also provide a better basis for determining if cost-recovery policies are appropriate. Better knowledge of the cost of activities and outputs could stimulate more effective ways of producing them and provide a better basis for analysing projected resource requirements.**

10. Paragraphs 38-40 of the report of the Secretary-General draw a distinction between financial and management accounting information. The shift to the

International Public Sector Accounting Standards (sect. IV of General Assembly resolution 60/283 of 7 July 2006) and away from the practice of obligation accounting embodied in the present United Nations System Accounting Standards will affect the collection of the required management financial information. The Secretary-General indicates that an in-depth review of management-accounting information will therefore be required to identify all the needs of managers and that such a review could include the need for cost-accounting information (A/61/826, para. 40). **The Advisory Committee recommends that the Secretary-General be requested to ensure that cost-accounting requirements are incorporated into the review on management-accounting information.**

11. It appears to the Advisory Committee that the Secretary-General is proposing to postpone the integration of cost-accounting requirements into the implementation of the enterprise resource planning system and the International Public Sector Accounting Standards until a later stage. It notes that, in paragraph 11 of his report, the Secretary-General suggests that the significant organizational change required to implement a system of such magnitude successfully, in parallel with the other major reform initiatives under way, including the International Public Sector Accounting Standards and the enterprise resource planning system, may be beyond the Organization's capacity. Furthermore, in paragraph 46 (b) of his report he recommends that the General Assembly "review the implications of the application of cost-accounting principles, and decide to return to this issue in the context of determining the relative priority of the benefits to be achieved by the implementation of an enterprise resource planning system, including the strengthening of financial-management frameworks at the Secretariat with respect to internal charging and cost-recovery practices". It is not clear to the Committee at what stage the review of the implications of the application of cost-accounting principles would actually take place.

12. **The Advisory Committee recognizes the demands that the implementation of cost accounting could place on the Organization and the need to manage such changes and risks in a prudent and phased manner. Given that the Secretary-General has not made any specific proposals for the General Assembly's consideration, in particular in relation to the work being done on the International Public Sector Accounting Standards and the enterprise resource planning system, the Committee recommends that the Assembly request the Secretary-General to launch the pilot projects suggested in the report of the consultants as a practical step forward** (see also paras. 14-18 below).

13. **The Advisory Committee concurs with the Secretary-General that the prospective implementation of an enterprise resource planning system and the adoption of the International Public Sector Accounting Standards at the United Nations provide an opportunity to implement new approaches to collecting cost information. These developments should be compatible with cost accounting. The Committee recommends that the requirements for cost accounting be fully elaborated during the ongoing preparatory phase for the implementation of the enterprise resource planning system, in order to ensure that they are integrated into the design of the enterprise resource planning system from the outset.**

## Pilot project for improving cost reporting on conference services

14. The consultants have identified conference services as an important area for introducing cost-accounting techniques for support services because of the level of expenditure on meetings and conferences and, also, because it is a model that, with minor modifications, could be applicable to other support services (see chap. 5, paras. 175-208, of the report of the consultants).

15. Their study of the current situation shows considerable variations in the methods for costing conference services from one part of the United Nations to another, principally owing to the nature of the schedule of meetings and the sources of funding. At Headquarters, responsibility for the planning and coordinating of meetings and conferences varies according to their nature, and falls under the Central Planning and Coordination Service of the Department for General Assembly and Conference Management, the sponsoring substantive department, or the Under-Secretary-General's office. Practices for determining the charge for conference services vary also. For example, in the United Nations Office at Geneva, the United Nations Office at Nairobi and the United Nations Office at Vienna, the charges are more detailed and include overhead costs, whereas, under the general policy applied in New York, only additional expenditure incurred by the Secretariat is charged. Furthermore, the costs of authorship, a major item for most meetings, are not charged at all.

16. The consultants recommend that the methods and systems for estimating, recording and reporting costs be standardized across all offices of the Organization, in order to ensure consistency and transparency regarding the true costs of conference services. They propose to implement an activity-based costing system that includes the full costs of the services provided, including overheads, time and equipment usage. They suggest that the costing system could be a standalone system, while recommending that it be linked to a time-recording system.

17. The Department for General Assembly and Conference Management has developed a costing model and tools to quantify conference servicing costs. The Advisory Committee has already commented on the useful initiatives of the Department in this area (A/62/7 and Corr.1, paras. I.42-I.45; A/62/473, para. 11). The analysis of the consultants shows that further development and standardization of costing methods and systems could provide a more accurate and fuller picture of the costs of conference services. **The Committee recommends to the General Assembly that it request the Secretary-General to implement a pilot project taking into account the consultants' suggestions. Lessons learned from such a pilot project should be reported to the Assembly.**

## Pilot project for a time-recording and costing system in the Office of Internal Oversight Services

18. The consultants propose to pilot a cost-accounting system for the professional services of the Office of Internal Oversight Services based on a recording of the time that Professional staff work on each audit, with the final product being the report of the audit team. The Advisory Committee notes that the Office of Internal Oversight Services has been proposed because it currently has a time-recording system for its Professional staff and provides services to all parts of the Secretariat.

This pilot project could serve as a reference for substantive departments, where the time of Professional staff is the critical resource. Methods for calculating time cost rates, taking into account all overheads, are proposed by the consultants. **The Committee recommends that the General Assembly request the Office of Internal Oversight Services to develop and implement a pilot project for a time-recording and costing system taking into account the suggestions of the consultants.**